1999

annual report

Quality and Performance

LEGACY
HOTELS

REAL ESTATE INVESTMENT TRUST

CORPORATE PROFILE

LEGACY HOTELS REAL ESTATE INVESTMENT TRUST OWNS A DISTINGUISHED PORTFOLIO OF 17 LUXURY AND FIRST CLASS CITY CENTRE HOTELS IN CANADA. OUR OBJECTIVES ARE TO PROVIDE UNITHOLDERS WITH STABLE AND GROWING CASH DISTRIBUTIONS AND TO MAXIMIZE UNIT VALUE. TO ACCOMPLISH THIS, LEGACY IS FOCUSED ON ACHIEVING SUPERIOR OPERATING PERFORMANCE THROUGH SOUND MANAGEMENT DECISIONS, ENHANCEMENT OF THE HOTELS, GROWTH OPPORTUNITIES AND A CONSISTENT HIGH STANDARD OF SERVICE.

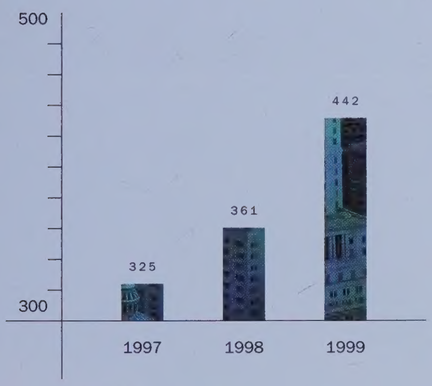
KEY FEATURES:

- SUPERIOR QUALITY ASSETS
- GEOGRAPHICALLY DIVERSIFIED PORTFOLIO IN PROMINENT LOCATIONS
- 7,747 GUESTROOMS AND SUITES; 400,000 SQUARE FEET OF MEETING SPACE
- OPERATED BY TWO LEADING HOTEL MANAGERS, FAIRMONT HOTELS & RESORTS AND DELTA HOTELS
- 6,200 DEDICATED EMPLOYEES COMMITTED TO DELIVERING HIGH QUALITY SERVICE

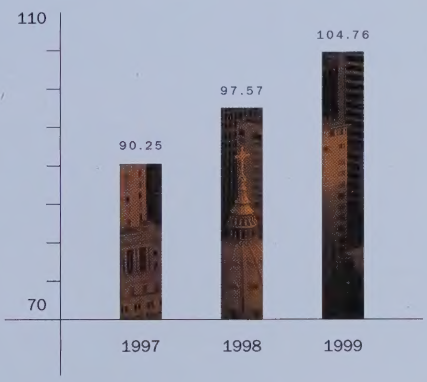
TABLE OF CONTENTS

Another year of exceptional operating performance for Legacy

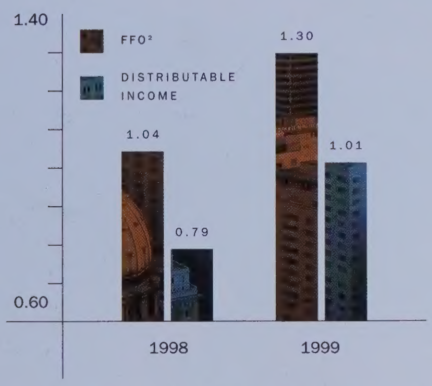
- Gross operating revenues rose 22% to $442 million, gross operating profit increased by 29% and distributable income was up 27% to $59.8 million.
- Average daily rate for the portfolio improved by 9.9%, contributing to a $7.19 or 7.4% increase in revenue per available room ("RevPAR").
- Cash distributions were $0.89 per unit, 13.4% higher than 1998.
- The acquisitions of three hotels increased the number of rooms by 13% in 1999, contributing to growth of 39% since Legacy's inception.
- Legacy's unit price increased 27% through 1999.



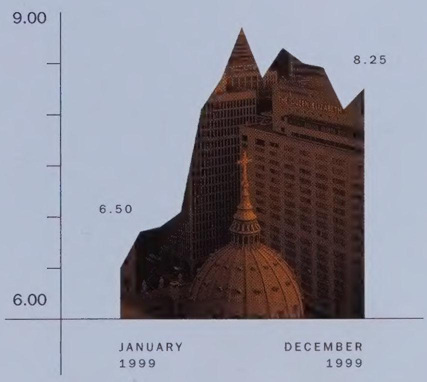
GROSS OPERATING REVENUES ($ MILLIONS)



REVPAR[1] ($)

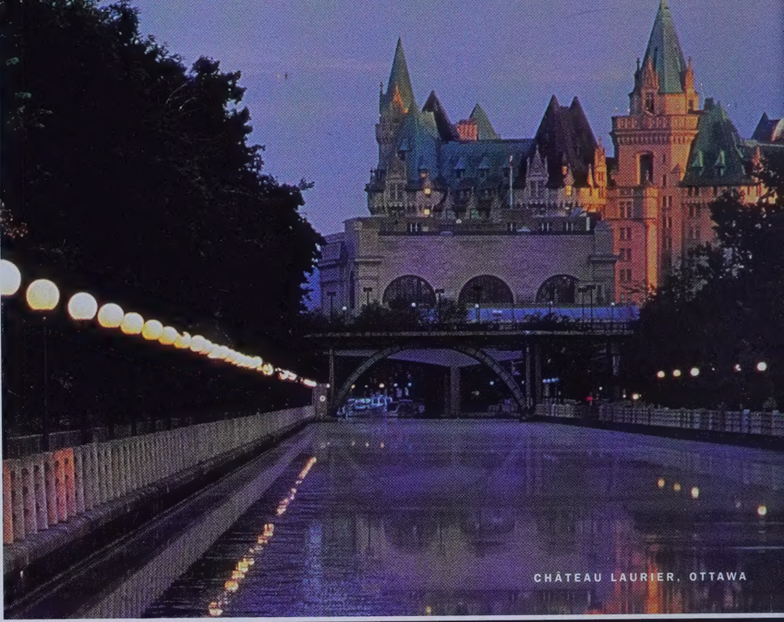


FFO[2] AND DISTRIBUTABLE INCOME PER UNIT ($)



UNIT PRICE ($)

1. REVPAR STATISTICS ARE FOR THE CURRENT PORTFOLIO OF PROPERTIES AS IF OWNED FOR THE FULL YEARS PRESENTED.
2. FUNDS FROM OPERATIONS EQUALS NET INCOME, ADDING BACK AMORTIZATION AND THE PROVISION FOR YEAR 2000 READINESS COSTS (1998).



CHÂTEAU LAURIER, OTTAWA

Built in 1912, the **Château Laurier** has been a focal point in Canada's capital city for decades, welcoming world leaders, dignitaries and countless tourists and guests since it opened its doors. **Hotel Vancouver** sits in the heart of the city's business district, combining traditional elegance with modern conveniences. The hotel's lobby was restored in 1996, providing guests with a sense of arrival as they enter this landmark property.

HOTEL VANCOUVER, VANCOUVER

"Operating results in 1999 exceeded our expectations. Our high quality assets, run by dynamic management teams, have led to strong operating performance and provide the foundation for future success."

WILLIAM R. FATT, VICE-CHAIRMAN & CHIEF EXECUTIVE OFFICER

Growth of the Hotel Portfolio

Legacy Hotels Real Estate Investment Trust ("Legacy") owns a unique collection of landmark properties and modern hotels, located in all the major city centres across Canada. The portfolio includes a combination of luxury and first class hotels offering large convention facilities, business amenities, health clubs and many restaurants, catering to both business and leisure travellers.

In July 1999, Legacy purchased a leasehold interest in the 202-room Delta Barrington in Halifax. A complete renovation of the hotel's guestrooms, public areas and façade is underway. In September, the Delta Toronto East and Four Points Hotel Toronto Airport were acquired, adding a total of 664 rooms to the portfolio. Combined with the Royal York, these two properties secure a dominant position for Legacy in Toronto, one of North America's gateway cities.

During the year Legacy also capitalized on the opportunity to enhance revenue at its two existing Montreal properties. In the summer, the reflagged Delta Centre-Ville reopened 161 newly renovated guestrooms that had been out of service for more than five years. In addition, The Queen Elizabeth converted existing office space into 41 new guestrooms and a small conference centre.

Strengths in the Hotel Industry

Canada's hotel industry fundamentals were strong in 1999. With the exceptions of the Vancouver and Calgary markets, there was little new hotel supply in the

full service category. This, coupled with general prosperity in North America, supported increased average daily rates and higher revenue per available room ("RevPAR"). Revenue growth from rate increases improves operating income without the additional costs associated with higher occupancies.

It is anticipated that the Canadian hotel industry will maintain 1999's level of buoyancy in 2000. The current level of the Canadian dollar gives Canadians the incentive to travel within their own country and continues to attract international travellers, especially Americans. According to the Conference Board of Canada's Travel Market 2000 Outlook, overnight travel from the United States is projected to expand by 5% in 2000. As U.S. hotel rates are still considerably higher than those in Canada, there is an opportunity for the industry to increase average daily rates in 2000.

Managed by Leaders in the Industry

In November 1997, Legacy's portfolio of 11 hotels was solely managed by Canadian Pacific Hotels ("CPH"), which operated primarily in the "luxury" market segment. The following year, CPH purchased Delta Hotels Limited ("Delta"), providing Legacy with access to detailed knowledge of the "first class" segment and facilitating Legacy's 1998 and 1999 acquisitions in this market.

In 1999, two significant developments took place within the management companies that enhanced the brand positioning of Legacy's portfolio while preserving the core operating teams.

In April, CPH announced the acquisition of Fairmont Hotel Management L.P. to create Fairmont Hotels & Resorts ("Fairmont"), the largest luxury hotel management company in North America. The transaction closed on October 1, 1999.

CPH holds a 67% interest in Fairmont with the previous owners holding the remaining 33%. CPH contributed 27 management contacts and Fairmont Hotel Management L.P. contributed its seven U.S. contracts as well as the Fairmont brand name to the new company. Fairmont now manages Legacy's seven luxury properties, representing approximately 74% of the portfolio's revenues.

Delta underwent several changes that would strengthen its position as the dominant brand in the first class domestic hotel market. This included the launch of its new logo and corporate identity and the addition of new management contracts. Delta assumed management responsibility for a number of Canadian Pacific hotels, including five of Legacy's properties, which are better represented under the Delta flag. Delta now manages and franchises 34 hotels of which ten are owned by Legacy.

Legacy's portfolio is now represented by two strong brands – Fairmont globally, using the Canadian Pacific Hotels brand within Canada, and Delta – each serving different market segments and providing a platform for further growth.

Legacy enjoys substantial benefits as a result of its relationships with Fairmont and Delta. A large international network of 46 sales professionals in 13 cities supports Fairmont, while Delta maintains the largest sales organization of first class hotel companies in Canada.

Both managers place a high degree of importance on their selection of talent, leadership development, employee training and recognition. Each company has developed programs to support these human resource initiatives in order to create employee commitment and loyalty to each organization while providing a high level of guest service. In 1999, CPH was honoured as one of the

"Best Companies to Work For" in Canada, by the Globe and Mail in conjunction with the Report on Business Magazine. As a 34% owner of Legacy's units, CPH is committed to the overall success of the portfolio.

Solid Financial Position

Legacy's strong financial position and operating cash flow in 1999 allowed Legacy to increase distributions to unitholders by 13.4% and complete several strategic acquisitions while maintaining a conservative capital structure. At December 31, 1999, Legacy's total debt outstanding was $453 million of which $333 million has staggered maturities to 2010. In November 2000, $75 million of the outstanding debentures mature and are expected to be refinanced. Total long-term debt, including the $75 million to be refinanced, represents 38% of Legacy's total assets (38% – 1998). For the year ended December 31, 1999, interest coverage on all debt exceeded 3.7 times (3.9 times – 1998). Legacy has available a $30 million operating line and a $100 million acquisition facility of which $85 million is undrawn under the two facilities.

Outlook

Legacy's solid performance in 1999 reflects the combination of quality assets, experienced managers and strength of the Canadian economy.

As general market conditions continue to improve in 2000 and Canada continues to attract large numbers of international travellers, the growth in the full service hotel market will be reinforced.

While we have had significant success with our strategy of acquisitions over the past two years, our primary focus for 2000 will be on increasing revenues

from existing assets. Given our collection of unique hotels, we have many opportunities to expand or change the use of existing space to provide new or enhanced experiences for our guests. Approved projects for 2000 include the renewal and upgrade of the restaurants at the Royal York and a significant renovation of the guestrooms, hotel façade and lobby of The Queen Elizabeth.

With two leading managers representing Legacy's portfolio of hotels, we foresee significant upside as we move forward. The international sales network at Fairmont will bring global exposure to Legacy's luxury hotels providing rate growth opportunities. Delta's leadership role in the first class segment of the Canadian market gives Legacy a secure hold on acquisition opportunities while the existing hotels enjoy the benefits of Delta's experienced national sales team.

Legacy's overall performance can be attributed to solid results in many of its markets. Although Legacy's Calgary properties underperformed due to supply growth, their performance was considerably outweighed by excellent results at our hotels in Toronto, Ottawa and Montreal. With little supply growth expected in these three cities and the majority of our rooms in these locations, Legacy's portfolio is well positioned for 2000 and beyond.

William R. Fatt
Vice-Chairman and Chief Executive Officer

Legacy's portfolio of 17 high quality hotels spans across Canada with a presence in most major cities. The hotels attract both business and leisure travellers, offering full service amenities in a downtown setting. Many of Legacy's hotels are landmarks in their cities and have been restored to their original grandeur.

THE PALLISER, CALGARY

DELTA HALIFAX, HALIFAX

The Palliser, an Alberta landmark, has been welcoming guests to Calgary for more than 85 years. Refurbished throughout, the hotel now offers a Work Centre and a new health club. Centrally located, the **Delta Halifax** contains meeting and convention facilities as well as state-of-the-art boardrooms to meet all business needs. Overlooking Vancouver's harbour, **The Waterfront** offers spectacular views of the mountains and ocean.

THE WATERFRONT, VANCOUVER

The **Royal York** has stood as a symbol of Toronto since 1929. Over the past decade, the hotel was restored to its original grandeur and now provides its guests with a Business Centre, the use of its renovated health club and boutique shopping. The hotel is located in the heart of downtown Toronto near to the financial district, tourist attractions, theatres, sporting events and the waterfront.

ROYAL YORK, TORONTO

LEGACY PORTFOLIO

FAIRMONT HOTELS & RESORTS	map reference	year opened	total guest rooms*	suites	meeting rooms	total meeting space (ft^2)
Hotel Vancouver, Vancouver, BC	1	1939	556	34	16	40,000
The Waterfront, Vancouver, BC	2	1991	489	29	14	24,000
The Palliser, Calgary, AB	4	1914	405	16	14	19,400
Hotel Macdonald, Edmonton, AB	5	1915	198	16	7	10,500
Royal York, Toronto, ON	9	1929	1,365	108	43	66,700
Château Laurier, Ottawa, ON	10	1912	426	38	16	31,700
The Queen Elizabeth, Montreal, PQ	13	1958	1,061	100	31	47,200
DELTA HOTELS						
Delta Calgary Airport, Calgary, AB	3	1979	296	12	15	13,000
Delta Bessborough, Saskatoon, SK	6	1935	225	10	13	17,100
Delta Toronto East, Toronto, ON	7	1982	368	7	27	20,700
Four Points Hotel Toronto Airport, Toronto, ON	8	1976	296	6	25	14,300
Delta Ottawa Hotel and Suites, Ottawa, ON	11	1970	328	62	13	11,600
Delta Centre-Ville, Montreal, QC	12	1977	711	24	24	30,000
Delta Beauséjour, Moncton, NB	14	1972	310	11	14	15,700
Delta Barrington, Halifax, NS	15	1980	202	1	7	6,000
Delta Halifax, Halifax, NS	16	1974	300	13	12	9,200
Delta Prince Edward, Charlottetown, PEI	17	1984	211	27	13	20,500

* including suites

PERFORMANCE REVIEW

Property	Occupancy (%) 1999	1998	% change	Average Daily Rate ($) 1999	1998	% change	RevPAR ($) 1999	1998	% change
FAIRMONT HOTELS & RESORTS									
Hotel Vancouver	77.26	72.34	6.8	$ 181.29	$ 169.51	6.9	$ 140.06	$ 122.63	14.2
The Waterfront	76.20	75.72	0.6	$ 189.41	$ 179.84	5.3	$ 144.34	$ 136.17	6.0
The Palliser	71.14	80.00	-11.1	$ 153.78	$ 141.06	9.0	$ 109.39	$ 112.84	-3.1
Hotel Macdonald	72.71	78.12	-6.9	$ 132.43	$ 125.06	5.9	$ 96.30	$ 97.70	-1.4
Royal York	78.80	80.48	-2.1	$ 163.15	$ 144.44	13.0	$ 128.56	$ 116.24	10.6
Château Laurier	81.51	81.68	-0.2	$ 158.70	$ 139.69	13.6	$ 129.36	$ 114.10	13.4
The Queen Elizabeth	69.82	70.60	-1.1	$ 141.97	$ 129.71	9.5	$ 99.12	$ 91.57	8.2
DELTA HOTELS									
Delta Calgary Airport	60.94	73.96	-17.6	$ 126.39	$ 120.50	4.9	$ 77.03	$ 89.12	-13.6
Delta Bessborough	64.61	74.80	-13.6	$ 83.91	$ 80.56	4.2	$ 54.22	$ 60.26	-10.0
Delta Toronto East	70.14	71.55	-2.0	$ 134.49	$ 117.81	14.2	$ 94.33	$ 84.29	11.9
Four Points Hotel Toronto Airport	80.36	80.00	0.4	$ 104.48	$ 88.08	18.6	$ 83.96	$ 70.46	19.2
Delta Ottawa Hotel and Suites	84.54	82.91	2.0	$ 116.51	$ 108.22	7.7	$ 98.50	$ 94.61	4.1
Delta Centre-Ville	68.56	72.18	-5.0	$ 124.48	$ 115.12	8.1	$ 85.35	$ 87.44	-2.4
Delta Beauséjour	70.82	70.56	0.4	$ 96.44	$ 88.22	9.3	$ 68.31	$ 62.25	9.7
Delta Barrington	79.27	81.60	-2.9	$ 102.27	$ 92.12	11.0	$ 81.07	$ 75.17	7.8
Delta Halifax	68.99	67.91	1.6	$ 107.07	$ 96.85	10.6	$ 73.87	$ 65.78	12.3
Delta Prince Edward	58.27	55.62	4.8	$ 123.02	$ 121.39	1.3	$ 71.69	$ 67.51	6.2
TOTAL	73.56	75.27	-2.3	$ 142.41	$ 129.62	9.9	$ 104.76	$ 97.57	7.4

Financial Review

In November 1997, Legacy Hotels Real Estate Investment Trust ("Legacy") commenced operations with an initial portfolio of 11 hotels ("Initial Portfolio"). 1999 marks the second full year of operations, with record operating performance from its expanded portfolio of 17 superior quality hotels located in ten major city centres across Canada.

REVIEW OF OPERATIONS

In 1999, Legacy continued to grow the portfolio through strategic acquisitions and the development of brand positioning within the portfolio. Growth was achieved with the purchase of three hotels: the leasehold interest in the Delta Barrington in Halifax, the Delta Toronto East and Four Points Hotel Toronto Airport ("1999 acquisitions"). In 1998, Legacy experienced similar growth which included the acquisition of the Delta Bessborough, the Radisson in Montreal and the leasehold interest in the Delta Ottawa Hotel and Suites ("1998 acquisitions"). The addition of these hotels, along with the already geographically diverse portfolio of hotels in key locations across Canada, has strengthened the earnings of the portfolio and provides a platform for further growth in the upcoming years.

The branding and positioning of the portfolio was further developed with Delta Hotels Limited ("Delta"), a wholly owned subsidiary of Canadian Pacific Hotels & Resorts Inc. ("CPH&R"), assuming the management of four hotels in the Initial Portfolio. These hotels, now branded Delta Calgary Airport, Delta Prince Edward, Delta Halifax and Delta Beauséjour, are better aligned to the first class business hotel market of the Delta brand. Additionally, the Radisson in Montreal was rebranded Delta Centre-Ville in December. Delta now manages ten hotels for Legacy and is the dominant brand leader of first class hotels in Canada with 34 properties under its name.

The seven luxury hotels in the portfolio are managed by the newly created Fairmont Hotels & Resorts ("Fairmont"). Fairmont was created through a transaction completed October 1, 1999, between CPH&R and the owners of Fairmont Hotel Management L.P., a U.S.-based luxury hotel operator. As a result, CPH&R owns 67% and the former owners of Fairmont Hotel Management L.P. own 33% of Fairmont. These Fairmont managed hotels are part of the largest luxury hotel management company in North America, which operates 35 distinctive hotels and resorts throughout Canada, the U.S., Bermuda, Barbados and Mexico.

Together, the Fairmont and Delta brands will provide Legacy with excellent potential for earnings growth and continued expansion through property acquisition in Canada and possibly the U.S.

Selected Financial Highlights

Twelve months ended December 31

	1999	1998	Percentage Change
Occupancy	**73.6%**	75.3%	-2.3%
Average daily rate	**$ 142.41**	$ 129.62	9.9%
RevPAR	**$ 104.76**	$ 97.57	7.4%
In $ Millions (except per unit amount)			
Operating revenues	**441.9**	361.4	22.3%
Operating expenses	**289.5**	242.9	19.2%
Operating income	**106.8**	83.6	27.8%
Net income	**58.7**	45.0	30.4%
Distributable income	**59.8**	47.0	27.3%
Amount distributed	**52.7**	46.5	13.4%
Distributable income per unit	**1.01**	0.79	27.8%

1. RevPAR is defined as revenue per available room.
2. Occupancy, average daily rate and RevPAR statistics are for the current portfolio of properties as if owned for the full years presented.

1999 was an outstanding year with Legacy reporting net income of $58.7 million, or $0.99 per unit, compared to 1998 net income of $45 million, or $0.76 per unit, an increase of 30.4%. Continued growth of the portfolio through acquisitions, along with a 7.4% increase in RevPAR, contributed to the solid increases in net income over 1998 and allowed for record distributions to unitholders.

Operating income was $106.8 million in 1999 compared with $83.6 million in 1998, a substantial improvement over 1998 of $23.2 million or 27.8%. Approximately $11.3 million of the improvement came from the 1998 acquisitions, $9.4 million from the Initial Portfolio and $2.5 million from 1999 acquisitions. Strong performances in the Initial Portfolio came from Hotel Vancouver, The Waterfront, the Royal York and Château Laurier, reduced somewhat by the Delta Calgary Airport, which continued to experience some weakness consistent with other hotels in the Calgary market. Delta Centre-Ville contributed $7.8 million or 69.4% of the total revenue increase relating to the 1998 acquisitions.

REVENUES

1999 operating revenues of $441.9 million increased by $80.5 million or 22.3%. The strong revenue growth is contributed by $45.4 million from 1998 acquisitions, $22.4 million from the Initial Portfolio and $12.7 million from 1999 acquisitions. The Royal York, Hotel Vancouver, Delta Centre-Ville and Delta Ottawa Hotel and Suites contributed to 67% of the increase in revenues. Legacy achieved rate growth in all of its markets, resulting in a significant increase in RevPAR of 7.4% contributing to growth particularly in the Initial Portfolio. The overall decline in occupancy of 2.3% is primarily a result of the drop in occupancy experienced in Calgary, Edmonton and Saskatoon.

EXPENSES

Legacy's direct operating expenses include cost of labour, other room expenses and other food and beverage expenses, administration, advertising, property operation and maintenance expenses and utility expenses. Direct operating expenses for 1999 of $289.5 million were $46.6 million or 19.2% higher than last year, due primarily to additional properties in the hotel base. Gross operating profit margins improved from 32.8% in 1998 to 34.5% in 1999. This improvement is a result of effective cost containment, improved labour productivity and increased average rate, which increases margins to the extent that costs are fixed.

Hotel management fees are comprised of base and incentive fees. In 1999, hotel management fees represented approximately 4.1% of revenues versus 3.3% in 1998 as a result of superior operating performance.

Property taxes, rent and insurance expense grew 18.9% in line with the growth in the hotel base.

Amortization expense increased $5.2 million to $18.6 million or 38.4%. This increase stems from acquisitions and capital improvement programs over the last two years and normal increases from the application of the sinking fund method.

Interest expense increased $6.9 million in 1999 to $27.0 million as a result of a full year of interest on the Series 2 Debentures of $100 million issued in December 1998.

LIQUIDITY AND CAPITAL RESOURCES

Legacy has credit facilities totalling $130 million for capital development and expenditures consisting of a $30 million operating line and a $100 million acquisition line. These bank facilities are committed to February 2002 and February 2003 respectively. In September 1999, Legacy borrowed $45 million on a short-term basis under its acquisition line in connection with the purchase of Delta Toronto East and Four Points Hotel Toronto Airport. At December 31, 1999, there is a total of $85 million available under these two facilities.

Investments in acquisitions for 1999 totalled $66 million, of which $45 million was funded from new debt as outlined above, and the balance was funded from cash on hand. The leasehold interest in the 202-room Delta Barrington in Halifax was purchased in July 1999 at a cost of $4.6 million. The Delta Toronto East and Four Points Hotel Toronto Airport, consisting of 664 rooms, were acquired from Canadian Pacific Hotels Corporation ("CPHC") in September 1999 at a cost of $61.4 million, including taxes, pursuant to a purchase option agreement entered into February 1998. Approximately $5 million was incurred in capital expenditures by CPHC to reposition these Toronto hotels subsequent to its purchase of the properties in February 1998. In June 1999, Delta assumed management of these hotels prior to their acquisition by Legacy.

Capital expenditures in 1999 totalled $28 million, as compared to $14 million in 1998. Approximately $14 million was spent on normal maintenance capital of the Initial Portfolio, $11 million was upgrade and maintenance capital relating to the 1998 acquisitions and $3 million funded 1999 revenue enhancing projects. Of the 1999 upgrade projects, the Delta Bessborough and Delta Ottawa Hotel and Suites have been substantially completed. The Delta Centre-Ville in Montreal has completed the reopening of 161 rooms, however the refurbishment of its public areas and restaurants, totalling approximately $4 million, is expected to be completed in 2000. A total of $2.4 million was spent in 1999 at The Queen Elizabeth in Montreal to convert office space to additional guestrooms and meeting facilities. Further renovations to its guestrooms are budgeted for 2000. A renovation of the Acadian Room and Lobby Bar at the Royal York in Toronto is planned for 2000 at a cost of approximately $2.5 million. Of the total $28 million capital expended in 1999, $10.3 million was in excess of the capital replacement reserve.

Budgeted expenditures for 2000 include $20.2 million for normal maintenance capital, $5.4 million for upgrade capital and $6.5 million for revenue enhancing projects. The maintenance capital requirements are expected to be fully funded by 2000's capital replacement reserve calculated at 4% of gross revenues. The capital replacement reserve increases to 5% in 2001.

Cash and cash equivalents at December 31, 1999 totalled approximately $11 million, compared to $34 million at the end of last year due to acquisitions and planned capital expenditures in excess of the capital replacement reserve. Bank indebtedness totalled $45 million at 1999's year end. The level of short-term debt may fluctuate throughout 2000 consistent with Legacy's short-term needs and the cyclical nature of hotel revenues. Given Legacy's strong performance in 1999, its positive outlook for 2000, and sufficient availability under its bank facilities, Legacy expects to be able to meet all of its financial obligations. In November 2000, $75 million of debentures mature. As long-term debt, including the maturing debentures, represents only 38% of Legacy's total assets, it is expected this amount will be refinanced with new long-term debt.

DISTRIBUTIONS TO UNITHOLDERS

Distributable income was $59.8 million in 1999. This represents an increase of $12.8 million over 1998 or 27.3%. Distributable income is calculated as net income before special charges, determined at the discretion of the Board of Trustees, plus depreciation and amortization less the capital replacement reserve. In 1998, Legacy distributed approximately 99% of distributable income. 1999 distributions of $52.7 or $0.89 per unit were 13.4% above 1998 and represented 88.2% of distributable income.

In 1999, 29.5% of the total distribution is taxable to the recipient. The balance of the distribution is a return of capital thus reducing the adjusted cost base of the unit. The adjusted cost base is used in calculating capital gains or losses on disposition of the trust units, if the trust units are held as capital property by the owner.

FUTURE TRENDS, COMMITMENTS AND RISKS

Outlook

Legacy's net income increased by 30.4% in 1999. This excellent growth was a result of a full year of earnings in 1999 from acquisitions in the latter half of 1998, along with the strong performance of the Initial Portfolio and a buoyant economy in most sectors. As Legacy heads into 2000, the outlook remains positive. The central and eastern markets of the portfolio comprise over 70% of the rooms base. These markets are expected to grow in 2000 and more than offset the impact of new supply in the Calgary and Vancouver markets. The lower Canadian dollar will likely continue to attract more American travellers and deter Canadians from travelling outside of Canada. In addition, net income will improve from the inclusion of a full year of operations from the 1999 acquisitions purchased mid-year and the rebranding of some of the portfolio.

Legacy will continue to strive to meet its objectives of providing stable and growing cash distributions in 2000 through effective management of the portfolio in a growing economy. Based on the current portfolio, approximately 40% of distributions in 2000 will be taxable, with the balance being a return of capital for those units held as capital property by the unitholder. Additional investment activities could cause this estimate to vary. Legacy will continue to maintain the quality of the portfolio through its capital replacement reserve policy. Additional funds will be expended in 2000 to enhance the existing portfolio and to complete the repositioning of the assets acquired over the last two years.

Legacy will actively pursue growth from its existing asset base and review strategic acquisition opportunities of quality assets in primary or secondary markets within Canada. Legacy's alliance with Fairmont and Delta will facilitate its ability to grow.

Late in 1999, Legacy announced it had filed a normal course issuer bid to commence purchases of its units in the open market through the facilities of the Toronto Stock Exchange. Subject to regulatory approval, Legacy expects to purchase up to 1,000,000 units over the course of the year, representing 2.5% of its public float. Legacy believes that its units offer excellent value at current trading levels and their repurchase represents an attractive use of funds. As a result, the acquisition of these units will provide benefits to remaining unitholders.

Risks

Legacy is subject to the following risks:

Real Property Ownership/Growth Opportunities

Significant fixed expenditures, including property taxes, maintenance costs, debt service costs, and land and building lease costs (five properties), are incurred regardless of income produced. Legacy may also be subject to risks associated with debt refinancing, as new terms are subject to market conditions and may not be as favourable as existing terms.

The lack of supply of luxury and first class hotels available for sale at a favourable price in the right market may limit growth of the portfolio. The building of new hotels may not be financially viable in markets where supply exceeds demand. The availability of debt financing or equity may also be restricted.

Under various federal and provincial environmental laws, owners of property may be liable for the costs of removal or remediation of toxic substances on owned property. Legacy continues to monitor and address environmental matters and has a comprehensive management program in place to ensure environmental risks are minimized.

Hotel Industry

Hotel ownership is subject to risks inherent in the industry. The industry is subject to changes in general and local economic conditions, seasonal variations in cash flow, overbuilding, varying demand levels for rooms and related services, changes in the availability and cost of labour, currency fluctuations, changes in travel patterns and trends, technology and service requirements. The industry is highly competitive, with hotels competing not only in their local markets against similar class of hotels, but competing nationally and internationally against limited and full service hotels.

Labour Relations

12 of Legacy's hotels have unionized employees, representing approximately 3,600 of Legacy's 6,200 employees. These properties are covered by 17 collective agreements with nine unions. Five contracts were successfully settled in 1999 at market rates. Four contracts expire in 2000: The Palliser (two), Hotel Vancouver and the Delta Beauséjour. Although Legacy cannot predict the outcome of contract negotiations, Legacy continues to maintain favourable partnerships with its employees in conjunction with employee programs through Fairmont and Delta.

YEAR 2000

During the year, Fairmont and Delta continued efforts on behalf of the Legacy portfolio to minimize the risk of Year 2000 related disruptions for both its information systems managed and business managed areas. The overall plan to address the Year 2000 issue is described fully in Legacy's 1998 Annual Report to Unitholders. The following is an update of that information.

All Legacy hotels continue to be Year 2000 ready and have had a successful transition into the new year. While no significant problems were experienced during the actual January 1, 2000 rollover, other critical dates in 2000, such as February 29, will continue to be closely monitored. This includes additional testing, assessment of third party readiness, contingency planning preparedness and various change management activities. Based upon efforts to date, it is believed that the vast majority of Legacy's information systems managed and business managed systems, including all mission critical and important systems, will continue to function normally through 2000 and beyond. The total cost of the year 2000 project is not expected to exceed $7.5 million of which $3 million was expensed in 1998 and the balance capitalized.

The information in this Annual Report is the responsibility of management. The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and include certain amounts based on management's best estimates and careful judgement.

Management maintains a system of internal controls to provide reasonable assurance that assets are safeguarded and that transactions are authorized, recorded and reported properly. To augment the internal control system, Legacy maintains a program of internal audits covering significant aspects of the operations and the internal audit department reports its findings and recommendations to management and the Audit Committee of the Board of Trustees.

The Board of Trustees carries out its responsibility for the consolidated financial statements principally through its Audit Committee, consisting of three members, the majority being Independent Trustees. This Committee reviews the consolidated financial statements with management and the independent auditors prior to submission to the Board for approval. It also reviews the recommendations of both the independent and internal auditors for improvements to internal controls as well as the actions of management to implement such recommendations.

Vice-Chairman and
Chief Executive Officer

Executive Vice President,
Chief Financial Officer and Treasurer

AUDITORS' REPORT

TO THE UNITHOLDERS OF LEGACY HOTELS REAL ESTATE INVESTMENT TRUST

We have audited the consolidated balance sheets of Legacy Hotels Real Estate Investment Trust as at December 31, 1999 and 1998 and the consolidated statements of operations and retained earnings (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Alberta
January 27, 2000

(IN THOUSANDS OF DOLLARS)	AS AT DECEMBER 31, 1999	AS AT DECEMBER 31, 1998
ASSETS		
Current assets		
Cash and short-term investments	**$ 11,121**	$ 107,573
Accounts receivable	**26,139**	22,535
Materials and supplies	**3,939**	3,586
Prepaid expenses	**2,106**	2,724
	43,305	136,418
Capital assets (note 4)	**1,020,946**	944,766
Other assets	**1,596**	1,522
	$ 1,065,847	$ 1,082,706
LIABILITIES		
Current liabilities		
Bank loans (note 5)	**$ 44,782**	$ 73,768
Accounts payable and accrued liabilities	**48,856**	42,718
Current portion of long-term debt (note 6)	**75,211**	192
Other	**132**	132
	168,981	116,810
Long-term debt (note 6)	**332,550**	407,761
Other liabilities	**1,343**	1,128
Unitholders' interest		
Unitholders' equity (note 7)	**561,993**	561,993
Retained earnings (deficit)	**980**	(4,986)
	562,973	557,007
	$ 1,065,847	$ 1,082,706

Approved by the Board of the Trustees

Trustee
William R. Fatt

Trustee
Bryce W. Douglas

(IN THOUSANDS OF DOLLARS EXCEPT PER UNIT AMOUNTS)	FOR THE YEAR ENDED DECEMBER 31, 1999	FOR THE YEAR ENDED DECEMBER 31, 1998
Operating revenues		
Room	$ 272,679	$ 218,159
Food and beverage	144,785	120,794
Other	24,472	22,409
	441,936	361,362
Operating expenses	289,515	242,887
Gross operating profit	152,421	118,475
Hotel management fees	18,118	11,791
Property taxes, rent and insurance	27,467	23,100
Operating income from hotel operations before undernoted items	106,836	83,584
Other expenses		
Amortization	18,596	13,440
Advisory fee	4,261	3,664
Year 2000 program costs and other	1,032	3,801
Income before interest expense and provision for income taxes	82,947	62,679
Interest expense (note 13)	23,873	17,306
Income before provision for income taxes	59,074	45,373
Provision for income taxes	380	376
Net income for the year	58,694	44,997
Deficit – beginning of year	(4,986)	(3,476)
Distributions in the year	(52,728)	(46,507)
Retained earnings (deficit) – end of year	980	(4,986)
Net income per unit	$ 0.99	$ 0.76
Distributable income per unit	$ 1.01	$ 0.79

(IN THOUSANDS OF DOLLARS)	FOR THE YEAR ENDED DECEMBER 31, 1999	FOR THE YEAR ENDED DECEMBER 31, 1998
CASH PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Net income for the year	**$ 58,694**	$ 44,997
Items not affecting cash		
Amortization	**18,596**	13,440
Other	**696**	202
	77,986	58,639
Changes in non-cash working capital		
Increase in accounts receivable	**(3,231)**	(5,857)
Increase in materials and supplies	**(174)**	(606)
Decrease (increase) in prepaid expenses	**1,118**	(614)
Increase in accounts payable and accrued liabilities	**5,655**	6,030
(Decrease) increase in interest payable	**(1,443)**	1,410
	1,925	363
Cash flows from operations	**79,911**	59,002
FINANCING ACTIVITIES		
Bank loans	**44,782**	–
Net proceeds from debentures	**–**	98,734
Mortgage payments	**(192)**	(45)
Repayment of deferred liabilities	**(144)**	(21)
Distributions to unitholders	**(52,728)**	(46,507)
	(8,282)	52,161
INVESTING ACTIVITIES		
Acquisitions (note 3)	**(65,976)**	(86,501)
Additions to capital assets	**(28,088)**	(14,048)
Proceeds from sale of capital assets	**162**	–
Other assets	**(411)**	(256)
	(94,313)	(100,805)
(Decrease) increase in cash during the year	**(22,684)**	10,358
Cash and cash equivalents – beginning of year	**33,805**	23,447
Cash and cash equivalents – end of year	**$ 11,121**	$ 33,805
CASH AND CASH EQUIVALENTS INCLUDES		
Cash	**4,121**	7,573
Short-term investments	**7,000**	100,000
Bank loans	**–**	(73,768)
	$ 11,121	$ 33,805
SUPPLEMENTAL DISCLOSURE		
Income taxes paid	**273**	280
Interest received	**3,130**	2,834
Interest paid	**$ 28,446**	$ 18,731

(IN THOUSANDS OF DOLLARS EXCEPT PER UNIT AMOUNTS)

1. THE TRUST

Legacy Hotels Real Estate Investment Trust, an affiliate of Canadian Pacific Hotels Corporation ("CPHC"), is an unincorporated closed-end real estate investment trust created by a declaration of trust ("Declaration of Trust") dated as of September 11, 1997, as amended and restated as of October 11, 1997. The Trust commenced its operations on November 10, 1997 upon the completion of its initial public offering of 59,244,492 Units and a simultaneous offering of Series 1 debentures. Upon the completion of these offerings, the Trust acquired interests in 11 first class and luxury full service business hotels ("Initial Hotel Portfolio") from Canadian Pacific Properties Inc. The Trust has since acquired interests in six additional hotel properties.

The operations of the Trust, including its strategy, investments and management, are subject to the general direction and control of its trustees, a majority of whom must be independent of the Trust, CPHC, or any affiliate thereof.

The hotel portfolio consists of 17 hotels located in ten cities and eight provinces. The majority of the properties are owned by the Trust except for the Delta Calgary Airport, the Delta Halifax, the Delta Barrington, the Delta Beauséjour and the Delta Ottawa Hotel and Suites, in which the Trust holds leasehold interests.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles in all material respects and reflect the following policies:

Basis of Consolidation

The consolidated financial statements include the results of operations of Legacy Hotels Real Estate Investment Trust and its subsidiaries, the hotel holding companies and Legacy Hotels Corporation ("LHC"), all of which are wholly owned by the Trust. All significant inter-company transactions and balances have been eliminated.

Revenue Recognition

Revenues from hotel operations are recognized when services are provided and ultimate collection is reasonably assured.

Cash and Cash Equivalents

Cash and cash equivalents comprise short-term investments that are highly liquid and have initial terms to maturity of three months or less.

Materials and Supplies

Materials and supplies are valued at the lower of cost, determined on a first-in, first-out basis and replacement value.

Capital Assets

- Capital assets are recorded at cost.
- The Trust's policy is to capitalize major renewals and replacements. Interest incurred during the renovation period of major renovations to existing facilities costing over $1,000 is capitalized.
- Amortization is provided at rates designed to write off the assets over their estimated economic lives except for buildings on leased land which are amortized over the lesser of the term of the lease, including options, and the economic life of the building. The annual rates of amortization are as follows:

Buildings	sinking fund over 30 – 40 years
Furniture, fixtures and equipment	6% – 20% straight line
Leasehold interest	straight line over term of the lease

The sinking fund method of providing amortization is used for buildings. This method will amortize the cost of the buildings over a maximum period of 40 years in a series of annual installments increasing at the rate of 5% compounded annually.

Operating Equipment

The cost of the circulating operating equipment such as linen, china, glassware and silver is capitalized and then amortized over a period of 36 months. Replacements are expensed when placed in service.

Deferred Incentive Management Fees

Deferred incentive management fees are accrued and charged against income when the fees are payable or it is likely that they will become payable in a future year.

Maintenance and Repairs

Maintenance and repairs and minor renewals and replacements are charged against income when incurred.

Debt Discount and Other Issue Expenses

Debt discount and other issue expenses are included as other assets and are amortized over the term of the respective debt issues.

Foreign Currency Translation

Foreign currency assets and liabilities of the Trust's operations are translated into Canadian dollars at the rate of exchange in effect at the balance sheet date for monetary items and at historical exchange rates for non-monetary items. Foreign currency revenues and expenses are translated at the exchange rate in effect on the dates of the related transactions. Gains and losses resulting from the translation of assets and liabilities denominated in foreign currencies are included in income.

(IN THOUSANDS OF DOLLARS EXCEPT PER UNIT AMOUNTS)

Income Taxes

- The Trust is taxed as a mutual fund trust for income tax purposes. Pursuant to the Declaration of Trust, all taxable income directly earned by the Trust in the period is distributable to Unitholders of the Trust and such distributions are deducted for income tax purposes. Consequently, no provision for income taxes is required.
- LHC is subject to tax on its taxable income at an effective tax rate of approximately 44% (1998 – 44%). The provision for income taxes represents primarily Large Corporations Tax.

Unit Option Plan

The Trust has a unit-based compensation plan, which is described in note 7. No compensation expense is recognized for the plan when unit options are granted. Any consideration paid on exercise of unit options or purchase of units is credited to unitholders' equity.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses for the reported period. Actual results could differ from those estimates.

Segmented Information

The operations of the hotels held by the Trust are viewed by management as one operating segment. As a result, the consolidated financial statements are presented as one reportable segment with revenues disclosed separately for rooms, food and beverage and other. Other consists primarily of incidentals.

3. ACQUISITIONS

On July 3, 1999 the Trust acquired the leasehold interest in the Delta Barrington located in Halifax, Nova Scotia from Delta Hotels Limited ("Delta"), a subsidiary of Canadian Pacific Hotels & Resorts Inc. ("CPH&R"). The Trust also completed the acquisition of the Delta Toronto East and the Four Points Hotel Toronto Airport on September 30, 1999. These hotels were acquired from CPHC as a result of the Trust exercising its option as provided by the Hotel Properties Agreement.

The purchase price, which was paid in cash, has been allocated to each acquisition as follows:

	Delta Barrington	Delta Toronto East	Four Points Hotel Toronto Airport	**Total**
Working capital	$ –	$ (59)	$ (815)	**$ (874)**
Land	–	1,979	1,066	**3,045**
Buildings	–	28,652	13,615	**42,267**
Furniture, fixtures and equipment	562	11,076	5,900	**17,538**
Leasehold interests	4,000	–	–	**4,000**
	$ 4,562	$ 41,648	$ 19,766	**$ 65,976**

The Trust completed the following acquisitions in 1998: (i) the purchase of the Delta Bessborough located in Saskatoon, Saskatchewan on July 9, 1998, (ii) the purchase of the Delta Centre-Ville (formerly the Radisson Hôtel des Gouverneurs) located in Montreal, Quebec on October 15, 1998 and (iii) the purchase of the leasehold interests in Delta Ottawa Hotel and Suites located in Ottawa, Ontario on November 4, 1998.

The purchase price, which was paid in cash, has been allocated to each acquisition as follows:

	Delta Bessborough	Delta Centre-Ville	Delta Ottawa	**Total**
Working capital	$ 218	$ (331)	$ 77	**$ (36)**
Land	1,850	4,534	–	**6,384**
Buildings	7,931	55,907	–	**63,838**
Furniture, fixtures and equipment	2,000	8,000	–	**10,000**
Leasehold interests	–	–	15,392	**15,392**
Other liabilities	–	–	(1,079)	**(1,079)**
Mortgage payable	–	(7,998)	–	**(7,998)**
	$ 11,999	$ 60,112	$ 14,390	**$ 86,501**

4. CAPITAL ASSETS

	Cost	Accumulated Amortization	**1999 Net**	1998 Net
Land	$ 98,169	$ –	**$ 98,169**	$ 95,124
Buildings	822,702	14,326	**808,376**	761,387
Furniture, fixtures and equipment	113,876	18,220	**95,656**	73,004
Leasehold interests	19,949	1,204	**18,745**	15,251
	$ 1,054,696	$ 33,750	**$ 1,020,946**	$ 944,766

5. BANK LOANS

The Trust has a $30,000 revolving operating credit facility ("Operating Credit Facility") designed to provide financing for the operations of the Trust. The Trust also has a $100,000 revolving acquisition credit facility ("Acquisition Credit Facility") designed to provide financing on a short or long-term basis for acquisitions and other capital investments by the Trust. As at December 31, 1999, the Trust has no amounts outstanding and $30,000 available under its Operating Credit Facility. The Trust has drawn $45,000 under its Acquisition Credit Facility leaving $55,000 available. These credit facilities are unsecured and are subject to financial covenants with respect to the incurrence of long-term debt.

6. LONG-TERM DEBT

The components of the balance are as follows:

	1999	1998
5.53%, Series 1A debentures, due November 15, 2000	**$ 75,000**	$ 75,000
5.93%, Series 1B debentures, due November 15, 2002	**100,000**	100,000
6.34%, Series 1C debentures, due November 15, 2004	**75,000**	75,000
7.08%, Series 1D debentures, due June 2, 2008	**50,000**	50,000
6.30%, Series 2A debentures, due December 15, 2003	**50,000**	50,000
6.65%, Series 2B debentures, due December 15, 2005	**50,000**	50,000
11.0%, Mortgage payable, due March 10, 2010	**7,761**	7,953
	$ 407,761	$ 407,953
Less: Current portion of long-term debt	**75,211**	192
	$ 332,550	$ 407,761

Debentures

On December 17, 1998, the Trust issued $100,000 principal amount of its unsecured Series 2 debentures at a discount. Included in other assets is a discount of $209 (1998 – $254) and costs of $986 (1998 – $1,012).

The unsecured Series 1 and Series 2 debentures bear a weighted average annual interest rate of 6.124% and 6.48%, respectively. Interest is payable semi-annually in arrears.

The Series 1A, Series 1B and Series 2A debentures are not redeemable prior to maturity. The Series 1C, Series 1D and Series 2B debentures may be redeemable, in whole or in part, at any time, at the option of the Trust, at a redemption price equal to the greater of par and the price of the debentures to yield the appropriate Government of Canada bond rate plus accrued and unpaid interest.

The debentures are direct senior unsecured obligations of the Trust and rank pari passu with each other and with each series of the outstanding debentures and, subject to statutory preferred exceptions, all other present and future unsecured and unsubordinated indebtedness of the Trust.

New issues of long-term debt are subject to restrictions as to debt ratio and interest coverage as defined in the Trust Indenture. The Trust Indenture also imposes certain restrictions on the Trust and its subsidiaries relating to the ability to incur debt, pledge assets as security and make distributions other than normal distributions. All such conditions were met during 1999 and 1998.

In addition to these covenants, the Declaration of Trust provides that the Trust shall not incur or assume any indebtedness if, after giving effect to the incurrence or assumption of such indebtedness, the total indebtedness of the Trust on a consolidated basis would exceed 50% of the Asset Base. The Declaration of Trust also provides that, at no time shall indebtedness aggregating more than 15% of the Asset Base (other than trade payables, accrued expenses and distributions payable), be at floating interest rates or have maturities of less than one year, not including that portion of long-term debt falling due in the next twelve months.

Mortgage Payable

The mortgage bears interest at 11%, compounded semi-annually and payable monthly. The obligation is secured by the assets of the Delta Centre-Ville.

7. UNITHOLDERS' EQUITY

	Units Outstanding	$
Balance, December 31, 1999 and 1998	59,244,492	561,993

Each unit represents a unitholder's proportionate undivided beneficial interest in the Trust and confers the right to one vote at any meeting of unitholders and to participate pro rata in any distributions by the Trust and, in the event of termination of the Trust, in the net assets of the Trust remaining after satisfaction of all liabilities.

Distributions of $0.890 (1998 – $0.785) per unit were paid, aggregating $52,728 in 1999 (1998 – $46,507).

As at December 31, 1999, pursuant to the Unit Option Plan, there were 4,307,224 (1998 – 962,500) options to acquire units outstanding. These options expire ten years after granting, from

(IN THOUSANDS OF DOLLARS EXCEPT PER UNIT AMOUNTS)

November 7, 2007 to December 17, 2009. Certain options vest at the rate of 50% after the first two years and the balance one year, thereafter. A portion of the options vest should certain performance targets be met. The maximum number of units reserved for issuance under the Unit Option Plan is 5,924,449.

In December 1999, the Board of Trustees resolved to grant to CPHC 2,962,224 units, being 50% of the units available for issuance under the Unit Option Plan. These grants were deemed issued and vested as of November 10, 1997 and have an exercise price of $9.80.

	1999 Units	**1999 Weighted-Average Exercise Price**	1998 Units	1998 Weighted-Average Exercise Price
Outstanding – beginning of year	**962,500**	**$ 8.56**	625,000	$ 9.81
Granted	**3,344,724**	**9.61**	357,500	6.44
Forfeited	**–**	**–**	(20,000)	9.80
Outstanding - end of year	**4,307,224**	**$ 9.37**	962,500	$ 8.56
Exercisable – end of year	**3,299,724**	**–**	–	–

As at December 31, 1999:

Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price
$5.65 – $6.25	312,500	8.9 years	$ 6.11
$6.75 – $8.90	427,500	9.7 years	8.17
$9.80 – $9.95	3,567,224	7.9 years	9.80
	4,307,224	8.1 years	$ 9.37

8. AGREEMENTS

Management Agreements

The Trust has entered into long-term management agreements with Canadian Pacific Hotels Management Corporation ("CPHMC"), to manage the Initial Hotel Portfolio, with an initial term of 50 years and one renewal period of 25 years, exercisable at the option of CPHMC.

Effective June 14, 1999, Delta assumed management of four of the hotels from the Initial Hotel Portfolio: the Delta Calgary Airport, the Delta Prince Edward, the Delta Halifax and the Delta Beauséjour. Delta provides management services to CPHMC under a management services agreement with Delta with respect to these four hotels along with the Delta Bessborough, the Delta Centre-Ville and the Delta Ottawa Hotel and Suites acquired in 1998. Delta also provides management services for the Delta Barrington, the Delta Toronto East and the Four Points Hotel Toronto Airport under separate management agreements between the Trust and Delta.

On October 1, 1999, CPH&R completed a transaction with the owners of Fairmont Hotels Management L.P. As a result of that transaction, CPH&R owns 67% and the former owners of Fairmont L.P. own 33% of Fairmont Hotels Inc. ("Fairmont"). Fairmont provides management services to CPHMC for the remaining seven of the hotels from the Initial Hotel Portfolio, under a management services agreement.

Pursuant to these long-term management agreements, CPHMC and Delta are entitled to a base management fee and an incentive management fee. The base management fee is equal to 3% of total hotel revenues. For the hotels included in the Initial Hotel Portfolio the incentive fee is based on both the profitability of each of the hotels and the overall profitability of the Initial Hotel Portfolio. The incentive fee is calculated based on net operating income from hotel operations plus depreciation and amortization less capital replacement reserve, over a threshold amount, adjusted for certain changes in the Trust's cost of debt. In the event that the overall profitability does not exceed that target, the aggregate incentive fee determined on the profitability of each hotel that would otherwise be payable will be deferred. Such deferred incentive fee may become payable in a future year. For the six hotels acquired subsequent to the Initial Hotel Portfolio, the incentive fee is based on a threshold calculation on an individual hotel basis.

Advisory Agreement

The Trust entered into an advisory agreement in November, 1997 with CPHMC to provide operation and administrative services to the Trust and to advise the trustees regarding major decisions. The advisory agreement had an initial term of eight years and will be automatically renewed for additional terms of five years each, subject to the consent of CPHMC and the majority of the independent trustees. This agreement was assigned to Fairmont in 1999.

CPHMC is entitled to the following fees:

- an advisory fee equal to 0.40% of the asset base as defined;
- an acquisition fee of 0.65% of the total acquisition price of any additional property acquired by the Trust other than purchased from a related party; and
- a disposition fee of 0.25% of the aggregate sale price of any property sold by the Trust, other than to a related party.

Strategic Alliance Agreement

The Trust and CPHC entered into a strategic alliance agreement in 1997 to co-operate in certain areas related to the purchase and sale of hotels, the development of new hotels that may be considered for investment by the Trust and other areas related to the ownership and management of hotels. This agreement was assigned to Fairmont in 1999.

9. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The fair values of accounts receivable and accounts payable and accrued liabilities and bank loans approximate their carrying values, due to the relatively short periods to maturity of these instruments.

The carrying values and fair market value of the debentures and mortgage are as follows:

	Carrying value	Fair value
Series 1A debentures	$ 75,000	$ 74,430
Series 1B debentures	100,000	96,350
Series 1C debentures	75,000	70,238
Series 1D debentures	50,000	45,970
Series 2A debentures	50,000	47,500
Series 2B debentures	50,000	46,535
Mortgage payable	7,761	8,645

The Trust has determined the estimated fair value of its publicly traded debt based upon market prices at December 31, 1999. The fair value of other long-term debt is estimated based on rates currently available to the Trust for long-term borrowing with similar terms and conditions.

10. PENSION COSTS AND OBLIGATIONS

Pursuant to the purchase and sale agreement between the Trust and CPHC, the employees of the hotels in the portfolio are employees of LHC. Certain employees of LHC continue to belong to either a defined contribution plan or a defined benefit plan of CPHC or Delta. For the defined contribution plan, pension costs generally equal contributions made during the year. The defined benefit pension plan provides pensions based principally on years of service and compensation rates near retirement. The proportionate share of the actuarial present value of accrued benefits attributable to LHC employees for services rendered up to that date and the proportionate share of the pension assets, valued at fair market value, for the defined benefit pension plan amounted to $4,293 and $6,452, respectively.

11. RELATED PARTY TRANSACTIONS

Payments to CPHMC, Delta and Fairmont during the year were as follows:

	1999	1998
Management fees	**$ 18,118**	$ 11,514
Advisory fees	**4,261**	3,664
Acquisition fees	**–**	518
	$ 22,379	$ 15,696

CPHMC and Delta provide central reservations, sales and marketing, central purchasing, accounting, management information and employee training services for which CPHMC and Delta were reimbursed on a cost recovery basis in accordance with management agreements amounting to $15,602 (1998 – $13,053).

In February 1998, the Trust purchased a 9.5% note from CPHC for $60,500, due on September 30, 1999. The proceeds from the note were used by CPHC to acquire two hotel properties in Toronto. The Trust financed the purchase of the CPHC note with a group of Canadian chartered banks on a limited recourse basis, at an effective interest rate of about 6%. The note receivable and bank debt were offset for financial statement purposes. On September 30, 1999, the CPHC note and bank debt were repaid and the Trust exercised its option to acquire these hotels as provided by the Hotel Properties Agreement entered into by the Trust and CPHC.

The $60,500 interest rate swap agreement that the Trust entered into to modify the effective interest rate matured in September 1999 and was not renewed.

12. COMMITMENTS

Minimum rentals for operating leases are as follows:

	$
2000	6,394
2001	6,410
2002	6,410
2003	6,410
2004	5,638
Thereafter	34,435
	$ 65,697

Certain building leases are subject to a percentage rent clause that may require additional payments above the minimum payment.

(IN THOUSANDS OF DOLLARS EXCEPT PER UNIT AMOUNTS)

In accordance with hotel management agreements, the managers are entitled to withhold between 3% and 4% of annual operating revenues as a capital replacement reserve to finance ongoing capital expenditures at the properties. This amount is deducted from net income to determine the amount of distributable income.

Contractual commitments in respect of certain 1999 capital projects totalled $5,977 at December 31, 1999 (1998 – $3,410).

13. INTEREST EXPENSE

	1999	1998
Interest on debentures	$ 24,848	$ 18,674
Mortgage interest	846	179
Bank loans	1,309	1,287
	27,003	20,140
Less: Interest income	3,130	2,834
	$ 23,873	$ 17,306

14. UNCERTAINTY DUE TO YEAR 2000 ISSUE

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the corporation, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

15. RECLASSIFICATION

Certain prior year's figures have been reclassified to conform with the presentation adopted for 1999.

FORWARD LOOKING INFORMATION

This annual report contains certain forward-looking statements relating, but not limited to, Legacy's operations, anticipated financial performance, business prospects and strategies. Forward-looking information typically contains statements with words such as "anticipate", "believe", "expect", "plan" or similar words suggesting future outcomes. Much of this information appears under the caption "Management's Discussion and Analysis".

Readers are cautioned not to place undue reliance on forward-looking information because it is possible that predictions, forecasts, projections and other forms of forward-looking information will not be achieved by Legacy. By its nature, Legacy's forward-looking information involves numerous assumptions, inherent risks and uncertainties, including but not limited to the following factors: changes in business strategies; general global economic and business conditions; the effects of competition and pricing pressures; industry overcapacity; shifts in market demands; changes in laws and regulations, including environmental and regulatory laws; potential increases in maintenance and operating costs; uncertainties of litigation; labour disputes; timing of completion of capital or maintenance projects, currency and interest rate fluctuations; various events which disrupt operations; technological changes; and timely completion of Year 2000 readiness efforts by Legacy and critical third parties.

Legacy undertakes no obligation to update publicly or otherwise revise any forward-looking information, whether as a result of new information, future events or otherwise, of the foregoing list of factors affecting such information.

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Investor Relations
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French Reports
La version française de ce rapport sera envoyée sur demande.

Annual Meeting
Thursday, April 13, 2000
11:00 a.m. E.S.T.
Royal York
100 Front Street West
Toronto, Ontario

Web site
Visit our web site at www.legacyhotels.ca

Distribution Reinvestment Plan
Legacy Unitholders may acquire units through reinvesting cash distributions without paying brokerage commissions or administrative charges.

For general information concerning distributions, income tax reporting or the Distribution Reinvestment Plan please contact the transfer agent and registrar:

Transfer Agent and Registrar
The Trust Company of Bank of Montreal
129 Saint-Jacques Street, "B" Level North
Montreal, Quebec H2Y 1L6
1-800-332-0095 or (514) 877-2584

Auditors
PricewaterhouseCoopers LLP

TRUSTEES

SENIOR OFFICERS

Richard A. Goldstein
Chairman

William R. Fatt
Vice-Chairman and Chief Executive Officer

Neil J. Labatte
President and Chief Operating Officer

Chris J. Cahill
Executive Vice President

M. Jerry Patava
Executive Vice President, Chief Financial Officer and Treasurer

Terence P. Badour
Secretary

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